

Office of Catholic Education

Narrative Explaining Audited Financial Statements for the Year Ended June 30, 2013

This narrative accompanies the audited financial statements for the year ended June 30, 2013 for the Office of Catholic Education entities including the High Schools (see audited financial statements for Archdiocese of Philadelphia Office of Catholic Education High Schools), Schools of Special Education (see audited financial statements for Archdiocese of Philadelphia Office of Catholic Education Schools of Special Education), and the OCE Administration Account (see Archdiocese of Philadelphia Office of Catholic Education Administration Account). The High Schools include combined financial statements for the seventeen high schools owned by the Archdiocese. The Schools of Special Education include the financial statements for the four schools for children with special needs. A more detailed description of the entities, including those that are not included in the financial statements, appears in Note A of each set of financial statements.

The audited financial statements for all three entities provide information on the fiscal year ended June 30, 2013 (Fiscal 2013) and year ended June 30, 2012 (Fiscal 2012).

High Schools

The High Schools financial statements provide the overall financial position and results for the operations of the high schools which educated 14,205 students in Fiscal 2013 and 15,172 students in Fiscal 2012. The statements combine the centralized High School Operations Account with the seventeen locally managed Presidents Accounts. The

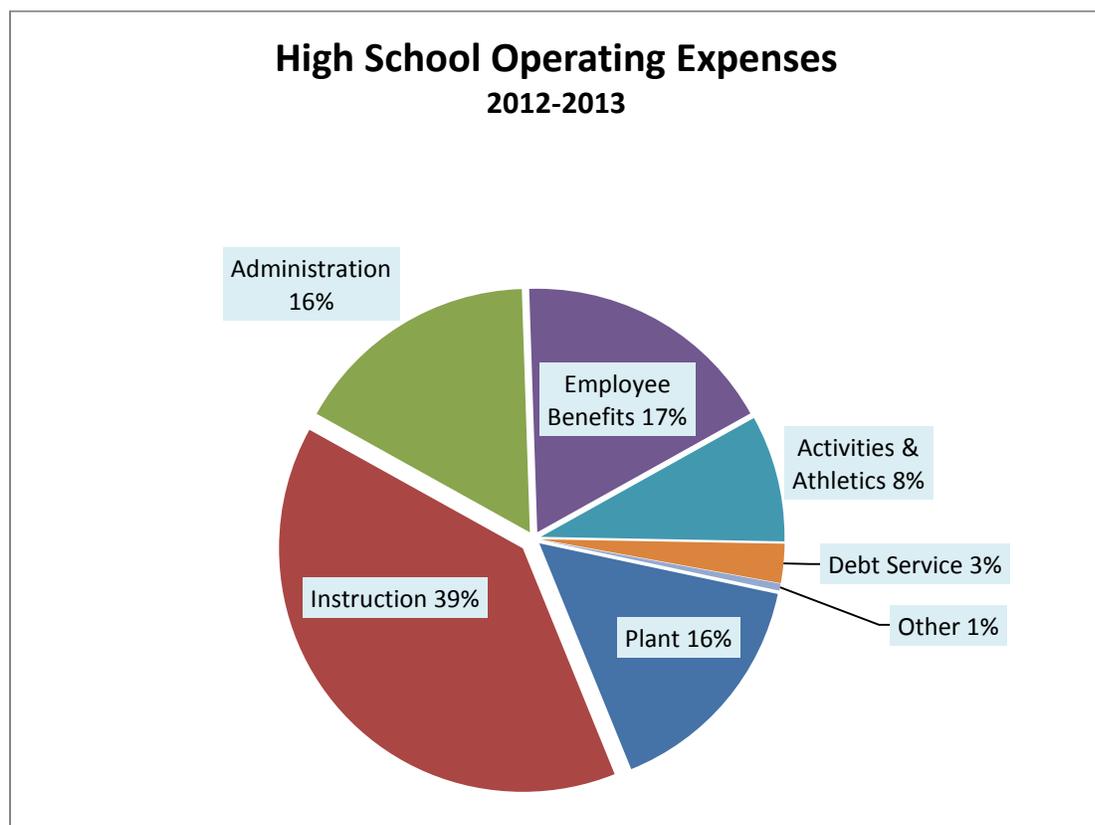
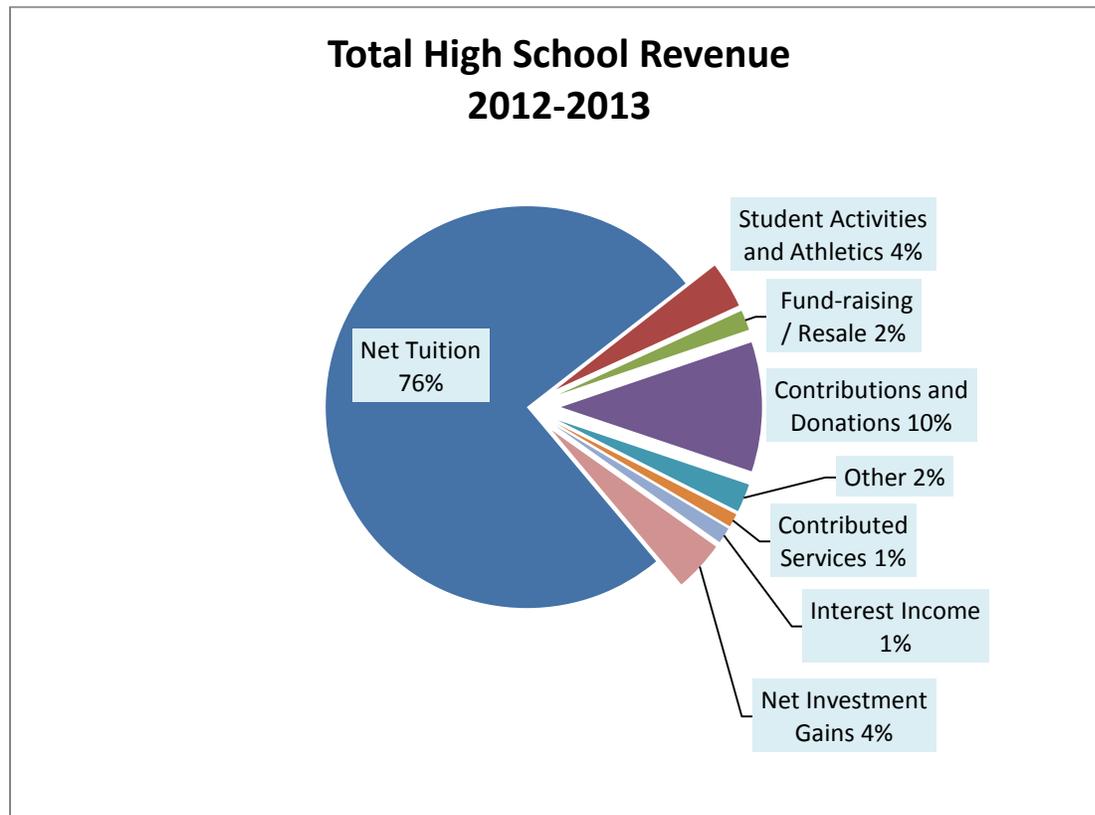


Supplemental Schedules provide detail on the combination with pages 33 and 34 showing the breakdown of Operations Account revenue and expenses and locally funded revenue and expenses (Presidents' account). Tuition was the primary source of Operations Account revenue which supported administrative and instructional salaries and benefits along with plant expenses. Revenue from school fees, donations, fund-raising, and athletic and activities raised locally was expended for scholarships and tuition assistance, activities, athletics, and local administrative, instructional and other costs processed through the Presidents' Accounts.

As shown in the table below, there was a total change in net assets of \$5,824,941 for Fiscal 2013 as compared to a change of (\$4,043,304) in Fiscal 2012. Investment gains in Fiscal 2013 were \$5,061,336 while in Fiscal 2012 there were investment losses of \$2,113,861. Fiscal 2012 also included a loss on the transfer of plant assets of \$2,510,191 from the Office for Financial Services and a \$1,000,000 transfer to pay the principal on the bond issues prior to their refinancing in June 2012.

	Fiscal 2013	Fiscal 2012
Change in Unrestricted Net Assets	\$ 726,029	\$ 2,169,273
Change in Temporarily Restricted Net Assets	4,816,266	(6,496,885)
Change in Permanently Restricted Net Assets	282,646	284,308
Total Change in Net Assets	\$ 5,824,941	(\$4,043,304)

In Fiscal 2013, tuition and fee revenue accounted for 76% of the revenue generating \$94.0 million. Donations generated another \$14.0 million or 10%. During Fiscal 2013, donations increased by over \$2.1 million or 19% due to the generosity of our alumni and other benefactors. Most of the funds generated from alumni are used to help provide tuition assistance for needy families.



In Fiscal 2013, High School operating expenses totaled \$118.8 million, thus the average total cost per student, including the cost of extracurricular activities, was \$8,366, an increase of \$555 from Fiscal 2012. Actual tuition and fee charges were lower since other sources of funding make up for the difference. The High School Operations Account portion of the total expenses, funded primarily through tuition, accounted for 77% of the expenses, while local spending from each school through the Presidents' accounts represented 23% of the expenses. This system allows economies of scale to be realized for certain centralized functions while giving site based responsibility for other costs better managed at the local level. The system has resulted in lower tuition costs for our Archdiocesan schools than for most Catholic high schools across the country.

Instructional costs make up the largest expense at 39%, followed by employee benefits at 17% of total operating expenses.

While unrestricted net assets were \$52.5 million at June 30, 2013, it should be noted that not all of this total was cash available for operations. Property and equipment represented \$115.6 million of total assets and there was long term debt of \$76.2 million for the construction of new schools. Thus, \$39.5 million of this total is net property and equipment. In addition, the net assets of the Presidents' accounts are only available for use at specific schools.

Temporarily restricted funds have donor imposed restrictions that the High Schools must follow in the use of these funds. As described in Note G to the financial statements, these funds are typically restricted for tuition assistance or operations and improvements.

Permanently restricted funds have donor imposed restrictions that require the asset to be maintained permanently, but which allow the High Schools to spend all or part of the income. As described in Note H to the financial statements, the endowments are generally for tuition assistance or for operations and improvements. The largest fund is the endowment from the Catholic Life 2000 campaign which totaled \$25.9 million at June 30, 2013. The high schools used \$1,045,000 for operations and maintenance from the earnings on this endowment during Fiscal 2013.

Schools of Special Education



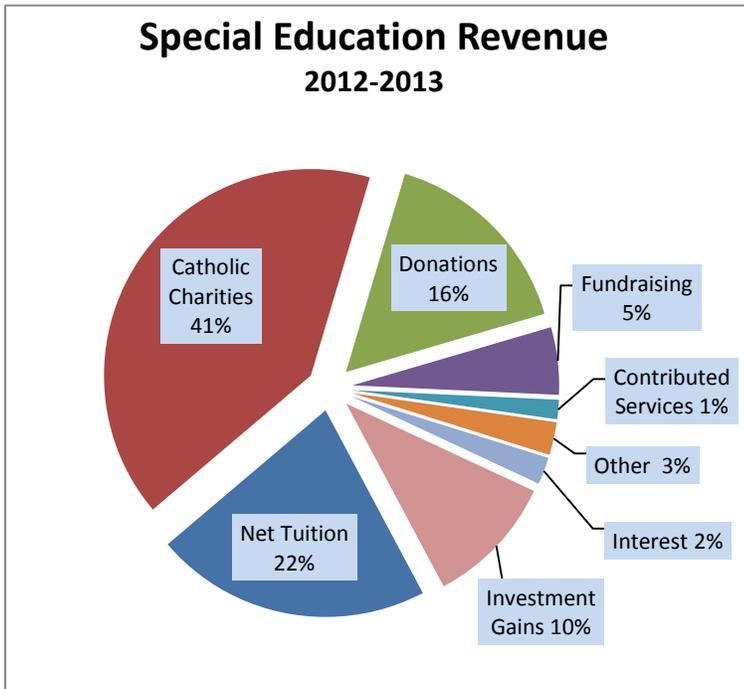
First Day of School at St. Katherine Day School

The Schools of Special Education include Archbishop Ryan Academy, St. Lucy Day School, St. Katherine Day School and Our Lady of Confidence Day School. These schools provide a Catholic education to students with autism spectrum disorder and cognitive impairments and students with sensory impairments such as visual loss or deafness or hearing loss. The students receive specially designed instruction that includes supplementary aids and services in the least

restrictive environment, as well as the full benefits of a Catholic education. These schools are one of a kind; there are no other alternatives for parents seeking a Catholic education for their special needs students in the Philadelphia area. In Fiscal 2013, the schools enrolled 203 students.

The Schools of Special Education had a net loss in net assets of \$110,885 in Fiscal 2013 which was an improvement from the net loss of \$403,974 from Fiscal 2012. This change is also attributable to investment performance since there was a gain of \$292,860 in Fiscal 2013 and a loss of \$137,864 in Fiscal 2012.

	Fiscal 2013	Fiscal 2012
Change in Unrestricted Net Assets	(\$ 78,680)	\$ 41,421
Change in Designated Net Assets	(84,142)	(350,232)
Change in Temporarily Restricted Net Assets	51,937	(95,163)
Total Change in Net Assets	(\$ 110,885)	(\$ 403,974)

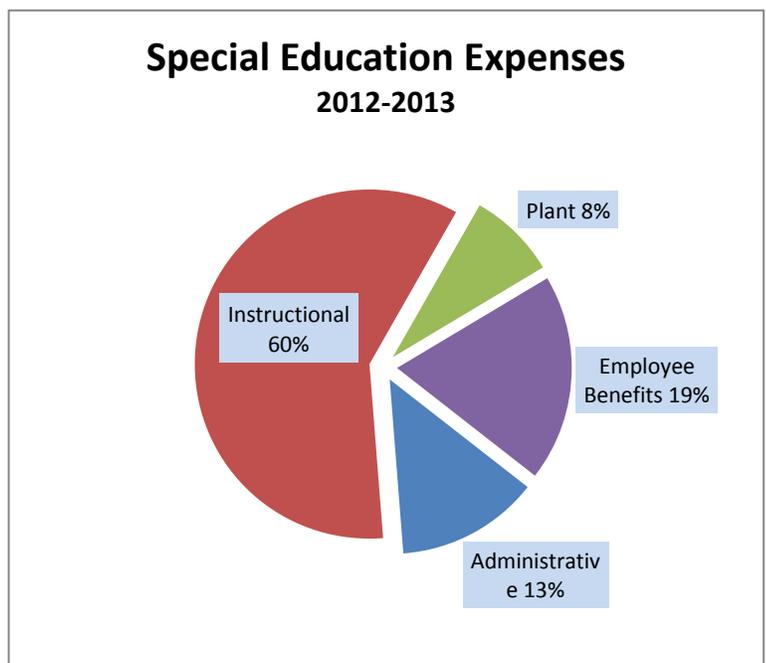


The primary source of revenue for the Schools of Special Education is Catholic Charities which provided \$1,162,363 in Fiscal 2013 or 41% of total revenue. The people of the Archdiocese of Philadelphia have generously supported these schools through Catholic Charities for decades.

Up until 1989 the schools were able to operate without having to charge tuition. In Fiscal 2013, tuition revenue accounted for 22% of revenue while donations raised by the local schools generated 16% of total revenue. Due to high medical and other expenses, families with special needs children cannot afford the full cost of tuition for these programs.

Expenses were \$2,958,911 in Fiscal 2013, down from \$3,013,711 in Fiscal 2012. The cost per student was \$14,576 in Fiscal 2013, an increase of \$639 from Fiscal 2012.

Instructional expenses represented the largest portion of expenses at 60%, followed by employee benefits at 19%. The Schools of Special Education only own one property, St. Katherine's Day School. The other schools use space in elementary and high schools.



Office of Catholic Education Administration

The Office of Catholic Education is responsible for providing administrative support to elementary, special education, and high schools, as well as, providing for support for the Catechetical programs in the Archdiocese. The Office operates a number of programs to provide training for teachers and administrators, and direction on curriculum and instruction and the use of technology in instruction.

In Fiscal 2013, there was a net gain in net assets of \$2,675,126, while in Fiscal 2012 there was a net loss of \$676,581. Favorable investment performance accounted for most of the improved financial results with gains of \$772,791 in Fiscal 2013 vs. losses of \$308,935 in Fiscal 2012. The value of a beneficial trust held by a third party increased by \$1,454,151 in Fiscal 2013 while in Fiscal 2012 it decreased in value by \$413,322.

	Fiscal 2013	Fiscal 2012
Change in Unrestricted Net Assets	\$ 232,252	(\$ 21,150)
Change in Designated Net Assets	144,746	(24,321)
Change in Temporarily Restricted Net Assets	729,431	(203,350)
Change in Permanently Restricted Net Assets	1,568,697	(427,760)
Total Change in Net Assets	\$ 2,675,126	(\$ 676,581)

Elementary schools are operated at the local level by parishes or regional boards, so their financial results are not included in any of the financial reports of the Office of Catholic Education. Similarly, the report does not include the financial activity of parish religious education programs.

During Fiscal 2013, revenue for the office came from the following sources:

High Schools and Special Education Schools	34%
Change in Beneficial Trust (Sullivan)	16%
Distribution from Sullivan Trust	16%
Archdiocesan Educational Fund	10%
Investment Gains	8%
Program Revenue	6%
Donations	6%
Other	4%

The Archdiocesan Educational Fund is a third-party endowment fund established to support educational needs of the Archdiocese of Philadelphia which is managed by a separate board. In Fiscal 2013, the Board determined that it would reduce its support for the Administration of the Office of Catholic Education beginning in Fiscal 2014.

Net assets at June 30, 2013 include \$5,363,816 in temporarily restricted net assets (see Note E to the financial statements) to be used for tuition assistance or programs. Permanently restricted net assets include \$29,633,854 (see Note F to the financial statements) to be used for programs and tuition assistance. The permanently restricted net assets include the Francis W. Sullivan Trust which is managed by an outside trust which provides annual support for tuition assistance and educational programs for all levels of education. The tuition assistance funds included in the Office of Catholic Education financial statements support elementary programs or provide for general funding at any level of education. Funds which can only be used in high schools or special education schools are included in those financial statements.